1986 Quinquennial Review

BACKGROUND PAPER No. 1

Changes in the Distribution and Demand for Office Space in the Toronto Region

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Contents

1	**Introduction**	1
	The 1986 Quinquennial Review: Background Papers 1	
	Executive Summary 1	
	The Office Sector 2	
2	**Scope of Study**	3
3	**Toronto's Rapidly Expanding Office Market**	4
4	**Central Area and Suburban Office Growth: Some General Observations**	5
	Supply of Office Space 5	
	Demand for Office Space 7	
	Vacancy Rates 8	
	Rental Rates 10	
5	**Detailed Distribution of Office Growth**	12
	Central Area 12	
	Office Parks 16	
	Sub-Centres 16	
	Dispersed Locations 17	
	Comparison of Vacancy Rates and Rental Rates by Zone 17	
6	**Some Conclusions Regarding Deconcentration**	19
	Appendix	20

1 Introduction

1.1 The 1986 Quinquennial Review: Background Papers

The City of Toronto's Official Plan contains provisions that require a review at five year or quinquennial intervals of certain indicators relating to the office deconcentration policies of the Plan. As part of the research and analysis leading to the 1986 Quinquennial Review, a series of discrete background papers covering a wide range of factors relating to the rate and distribution of office employment and population growth and the implications for the transportation system will be published.

The subject report, **Changes in the Distribution and Demand for Office Space in the Toronto Region**, constitutes Background Paper No. 1, and deals specifically with the rate of growth and distribution of office space in the metropolitan region in order to assist in determining the extent to which the deconcentration of office space is being achieved.

1.2 Executive Summary

- In 1985, the total supply of office space in the Toronto Region totalled 8.5 million square metres (92 million square feet). Toronto's regional office market is the eighth largest in North America.

- Long-run trends in office growth clearly indicate the extent to which office growth has spread to suburban locations. In 1966, the Central Area accounted for 76 percent of all space built in the Region. By 1985, the Central Area's share had fallen to 55 percent.

- Office parks presently make up the largest share of office space built outside the Central Area.

- Sub-centres which are starting to gain momentum, accounted for 15 percent of total space in 1985 and accounted for 22 percent of the total office space absorbed between 1984 and 1985.

- Vacancy rates in the Central Area stood at 9.9 percent in December 1985 - down from one year earlier but higher than vacancy rates found in suburban locations.

- Rents charged in the Central Area were the highest of all zones examined averaging $302 per square metre compared to $232 per square metre in sub-centres, $165 per square metre in office parks, and $138 per square metre in dispersed suburban locations.

- Given current "soft" market conditions, generous tenant inducements are presently being offered which effectively lower the actual rent charged for office space in the Central Area to levels well below asking rates.

1.3 The Office Sector

According to the Metropolitan Toronto Planning Department's latest survey of employment (April 1986), office employment in Metro Toronto totalled 495,520. This represents 41.9 percent of all jobs in Metro. In addition to being the largest employment sector, the office sector is also the most rapidly growing. The total number of office jobs in Metro has more than doubled over the past fifteen years.

The location of new office employment, and the space to accomodate it, is an important element in planning for and managing growth in Metro and the City. Together with the location and characteristics of the labour force, the location of office jobs and office space represent the single most important influences on peak period travel behaviour in the Toronto Region.

The principle of deconcentration of future office development is embodied in the Official Plans of the City of Toronto and Metropolitan Toronto in an effort to ensure, among other things, that office employment and travel patterns within the Region are distributed in a relatively balanced manner.

To promote deconcentration, the Central Area Plan contains policies which control the rate of office development within the Central Area. The rate of office growth over the life of the Plan is to be balanced with the existing transportation system serving the Central Area and monitored on an ongoing basis. The Metropolitan Toronto Official Plan encourages new office growth in employment sub-centres within Metro, a feature which is consistent with the City's Plan. At the same time, both Official Plans anticipate that investments or improvements to the transportation system designed to facilitate a deconcentrated form of metropolitan growth would be pursued.

This Background Paper looks at the data for one indicator of the success or failure of the deconcentration policies of the Plan, namely changes in the distribution of (supply), and demand for (absorption of), office space in the metropolitan region. As discussed in subsequent sections, the data indicate that the Central Area's share of total office space has been declining since 1976, relative to the suburban share which has been increasing. Over the same period, the Central Area experienced a more severe slowdown in demand (measured by absorption rates), than was experienced in the suburbs.

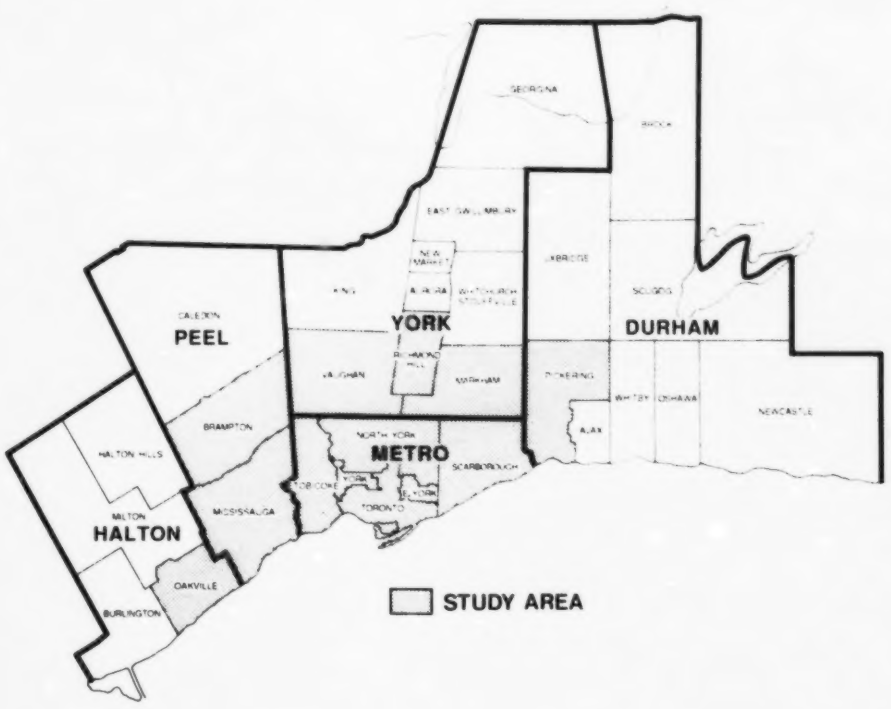
2 Scope of Study

For the purposes of this study, the Metropolitan region is defined as Metropolitan Toronto plus the surrounding municipalities of Oakville, Mississauga, Brampton, Vaughan, Richmond Hill, Markham and Pickering (Figure 1).

Data furnished by Royal LePage Ltd. from their annual survey of office space provides a consistent basis for the analysis of office space trends within the region over time. The Royal LePage data are based on annual surveys of office space in office buildings containing more than 1 858 square metres (20,000 square feet) of net rentable floor area. While the survey excludes smaller office buildings it nevertheless provides a comprehensive overview of office development patterns at the regional level. In 1985, 791 office buildings were included in the Royal LePage survey.

These data permit us to undertake a detailed examination of the current distribution of office space within the region to the end of 1985 as well as to review recent trends in the supply and demand of office space. In addition, trends in rental and vacancy rates are considered.

Figure 1
The Toronto Region

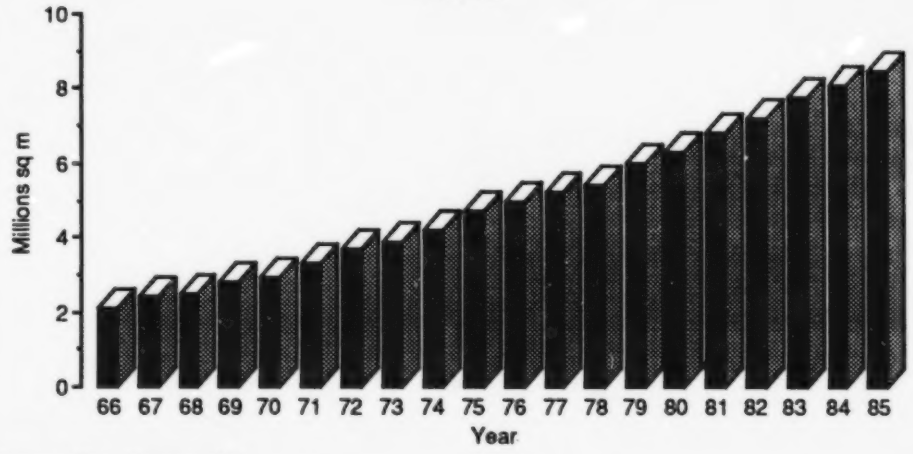


3 Toronto's Rapidly Expanding Office Market

In 1985, the total supply of office space in the Toronto region totalled 8.5 million square metres (92 million square feet). This is the largest office market in Canada and the eighth largest in size in North America, surpassed only by Manhattan, Chicago, Washington, Los Angeles, Houston, Dallas and Boston. According to the Office Network Inc. survey (Spring/Summer 1986), office space in Toronto's Central Business District ranks fifth in size in terms of CBD's in North America.

The rapid growth of office space within the metropolitan region is readily apparent from the accompanying chart (Figure 2). Over the past twenty years the total supply of office space in the region has more than quadrupled from two million square metres (21.5 million square feet) in 1966 to 8.5 million square metres (92 million square feet) in 1985. This represents an average rate of growth of 330 000 square metres (3.5 million square feet) a year over the 20 year period. In 1985, 402 000 square metres (4.3 million square feet) of new office space was constructed in the region.

Figure 2
Growth of Office Space
Toronto Region
1966-85



Source: Royal Lepage Ltd.

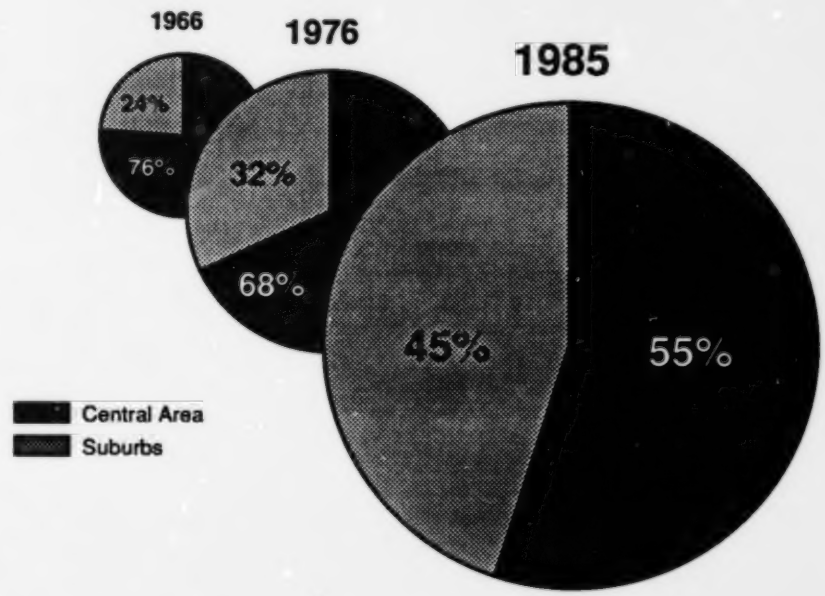
4 Central Area and Suburban Office Growth: Some General Observations

4.1 Supply of Office Space

One of the dominant trends influencing Toronto's office market is the rapid rate of suburbanization of office space.

In 1966, the Central Area accounted for 76 percent of all of the office space built in the region. By 1985, the Central Area's share had fallen to 55 percent even though the total amount of office space built in the Central Area had tripled from 1.6 million square metres to 4.7 million square metres (Figure 3)

Figure 3
Share of Office Space

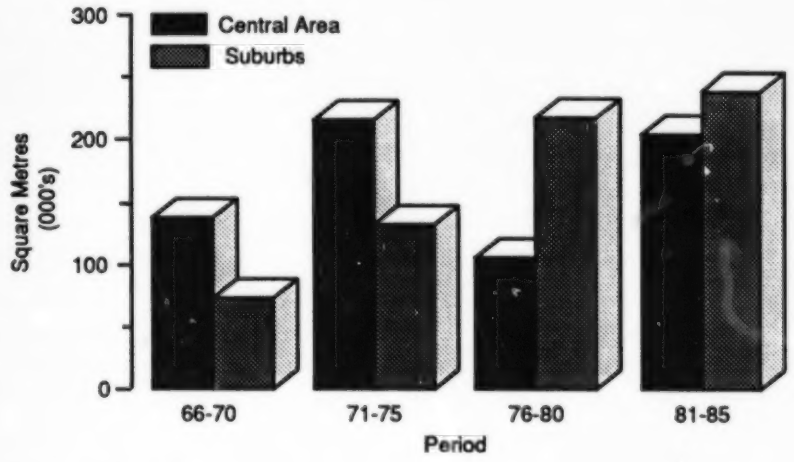


Source: Royal LePage Ltd.

Over the past five years, office space within the Toronto region has grown at an unprecedented rate of 443 000 square metres per year. The growth of suburban office space has been remarkably strong since 1976, and with the exception of 1983 and 1984, has consistently outpaced growth of space in the Central Area since 1976.

Between 1976 and 1985, the rate of growth of office space in suburban areas has averaged 228 000 square metres per year, compared with 155 000 square metres per year in the Central Area. These data clearly indicate the extent to which the suburbanization of office space is occurring in the Toronto region (Figure 4).

Figure 4
Average Annual Rate of Growth
(Total Office Space)



Source: Royal LePage Ltd.

Table 1
Summary of Annual Rates of Office Growth
Total Office Space - Toronto Region
(thousands of square metres)

Period	Central Area	Suburbs	Region
1966-1970	137	72	209
1971-1975	215	132	346
1976-1980	106	218	323
1981-1985	204	239	443
1966-1975	176	102	278
1976-1985	155	228	383
1966-1985	165	165	330

Source: Royal LePage Ltd.

By 1985, a total of 3.9 million square metres (42 million square feet) of office space had been constructed in the suburbs. This compares with a total of only 0.65 million square metres (seven million square feet) in 1966.

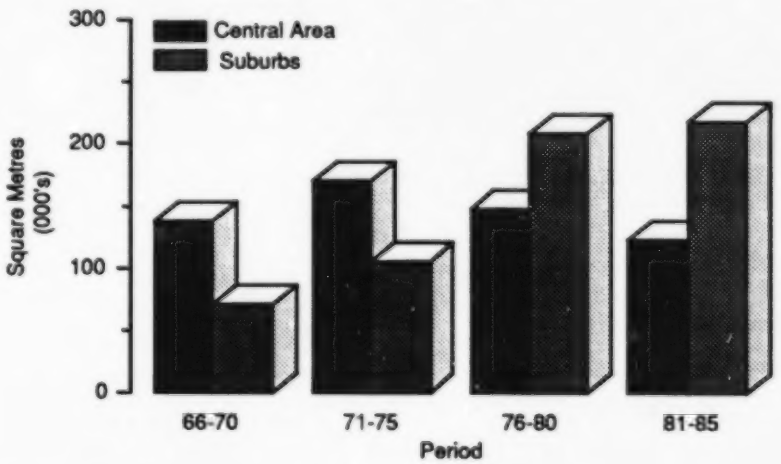
A detailed summary of annual rates of supply and demand and vacancy rates for office space from 1966 to 1985 in the Central Area and suburbs can be found in the Appendix.

4.2 Demand for Office Space

The demand for office space is measured through annual changes in the total amount of occupied floor space recorded in Royal LePage's annual surveys. The rate of absorption or demand for additional office space is a critical factor in the analysis of office growth since it focuses on occupied space and therefore closely parallels changes in office employment.

Figure 5 illustrates average levels of demand for office space in the region for five year periods from 1966-1985. The 1976-80 period represented a peak period of demand with occupied floor space growing at an annual average rate of 357 000 square metres. (3.8 million square feet)

Figure 5
Average Annual Rate of Absorption
(Occupied Office Space)



Source: Royal LePage Ltd.

Since 1980, the demand for additional space in the region has dampened somewhat, falling to 340,000 square metres per year (3.6 million square feet). In 1985, the demand for office space rebounded sharply and totalled just over 500 000 square metres (5.4 million square feet).

When the demand for office space in the Central Area and the suburbs is compared, it becomes evident that the slowdown in absorption over the 1980s had its greatest impact on the Central Area. Figure 5 shows that in spite of the general slowdown in absorption at the regional level between 1982 and 1984, the average rate of demand in suburban areas has continued to increase. Between 1981 and 1985, the demand for space in suburban locations averaged 217 000 square metres annually, up from an average of 209 000 square metres a year during the previous five year period.

Table 2
Summary of Annual Rates of Absorption
Occupied Office Space - Toronto Region
(thousands of square metres)

Period	Central Area	Suburbs	Region
1966-1970	137	70	206
1971-1975	170	106	275
1976-1980	148	209	357
1981-1985	123	217	339
1966-1975	154	88	241
1976-1985	136	213	348
1966-1985	144	150	294

Source: Royal LePage Ltd.

In the Central Area, on the other hand, the average annual rate of absorption has fallen steadily from a high of 170 000 square metres a year between 1971 and 1975 to 123 000 square metres between 1981 and 1985.

These trends clearly suggest a significant shift in demand for office space away from the Central Area to suburban areas.

The recession, decentralization of many firms and office functions, and a sharp increase in Central Area rental rates in 1980 appear to be major factors influencing the decline in demand for Central Area space since 1981.

4.3 Vacancy Rates

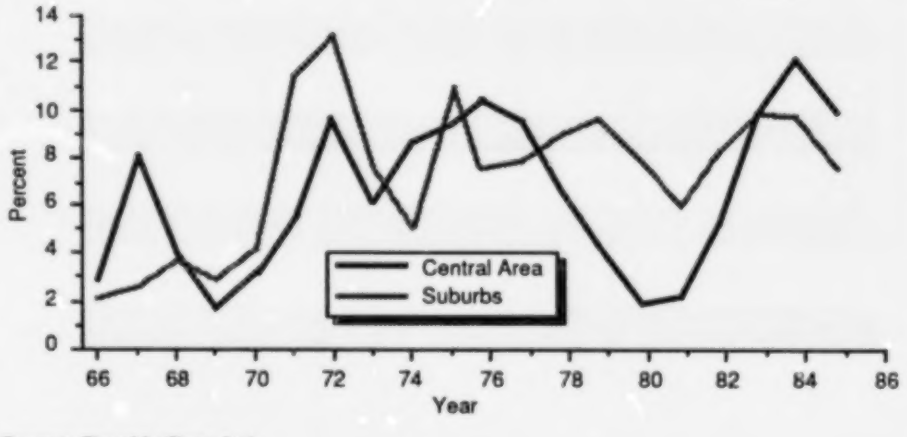
At the end of 1985, three quarters of a million square metres (eight million square feet) of office space was vacant in the Metropolitan region. This represents a vacancy rate of 8.95 percent - down from 11.1 percent one year earlier, but well above levels reported since 1976. In fact, the supply of vacant office space reached historically high levels in 1984 when just over 0.9 million square metres (9.6 million square feet) of office space was reported vacant.

In spite of a strong year in 1985, the demand for office space in the Central Area since 1981 has fallen behind increases in supply. Central Area vacancy rates at year end 1985 stood at 9.9 percent - down from 12.0 percent one year earlier. In December 1985, 0.46 million square metres (five million square feet) of office space (61 percent of the total supply of vacant space in the region) was reported vacant in the Central Area.

With several large office projects now under construction in the Central Area, indications are that vacancy rates reported in the Core will likely remain at fairly high levels for some time to come. This will mean strong competition for office tenants and probably a reduction in rental rates charged for Central Area office space, particularly in older buildings.

Historically, vacancy rates in the suburbs have exhibited far less volatility than those for the Central Area (Figure 6). This suggests that the supply of office space in suburban locations has been better balanced with demand than has been the case in the Central Area. As a result, vacancy rates in the suburbs over the last 10 years have generally been for more stable than vacancy rates reported in the Central Area.

Figure 6
Comparison of Vacancy Rates



Source: Royal LePage Ltd.

At year end 1985, the Royal LePage data show just under 0.3 million square metres (3.2 million square feet) of office space vacant in suburban locations. This represents a 7.7 percent vacancy rate - down from 9.9 percent one year earlier. Lower rents and proximity to the residential labour force are probably two key factors influencing the increased desirability of suburban space in recent years.

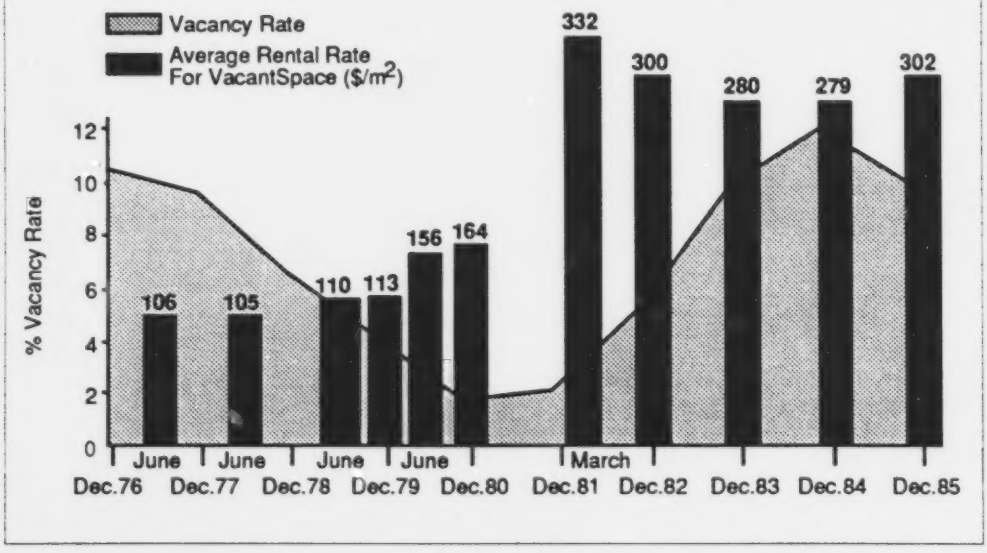
Reports from other local real estate sources suggest that vacancy rates were substantially higher than those reported by Royal LePage in 1985. For example, J.J. Barnicke, in a survey of 5.6 million square metres (61 million square feet) of office space in 391 buildings reported a regional vacancy rate of 14 percent at year end 1985. Much of this difference, however, can be explained by the fact that the Barnicke survey is based on a smaller sample and does not include non-competitive office space such as government offices, which is included in the Royal LePage survey. This space tends to be fully occupied and therefore lowers the market vacancy rate reported when included.

4.4 Rental Rates

Figure 7 compares trends in asking rents and vacancy rates for office space in the Central Area over time. These data, which are based on Royal LePage leasing information, show that asking rents for office space had jumped sharply by December 1981 when office vacancy rates stood at two percent in the Central Area and six percent in the suburbs (3.9 percent region-wide). Since then, asking rents for vacant space have stabilized.

Most of the office space currently available in suburban locations falls in the $140 to $220 per square metre range and averages $163 per square metre. Rents in the Central Area range from $180 to $340 per square metre with prime office space renting at even higher levels. In December 1985, asking rents for vacant space in the Central Area averaged $302 per square metre ($28.06 per square foot).

Figure 7
Relationship between Rental Rates and Vacancy Rates
Central Core
1976-1985



It should be stressed that the rental rates quoted above are based on rents asked for vacant space and that the average rents are weighted by the amount of vacant space available in each price range. More importantly, asking rents do not reflect rental "deals" which have been negotiated, nor do they reflect rents currently charged on existing leases. When these factors are taken into consideration, the actual rents charged would likely fall well below the asking rents quoted above.

Cursory analysis of a limited sample of leases in the Central Area which were negotiated between the fall of 1984 and the fall of 1985 reveals the extent to which "actual" rents undercut posted "asking" rents. When leasehold allowances (cash payments awarded to tenants for moving into rental space) and reduced or "deal" rental rates are taken into account, actual rents can be as much as 25 percent lower than asking rents over the term of a five-year lease (Table 3). Comparable data for suburban leases were not available.

A more detailed examination of recent office leasing activity and the impact of institutional financing or "patient" money has been commissioned by the City of Toronto for its Downtown Employment Study. The results of the financial component of the study related to office rental rates are expected to be available in late 1986.

Table 3
Comparison of Asking and Actual Rents Charged in Sample of Recently Negotiated Leases in the Central Area

Leases Surveyed	Total Space (sq. m)	Asking Rent ($/sq.m)	Deal Rent ($/sq.m)	Leasehold Allowance ($/sq.m)	Actual Rent ($/sq.m)	Accrued Savings
19	112 874	$267	$258	$282	$202	25%

Source: *DAON Development Ltd.*

Note: *Asking and deal rents are based on a 5 year term. Leasehold allowances are a one time cash award. Actual rent is calculated as savings derived from reduced or "deal" rents and leasehold allowances over a five year term.*

5 Detailed Distribution of Office Growth

The preceding section described in general terms, how office growth has been distributed in the region over the past twenty years. Based on these observations it is clear that while the Central Area has maintained its pre-eminent position as the primary office location, the suburbs have emerged as a strong alternative since 1976.

This section will examine the distribution of office space within the region in more detail, with emphasis on the distribution of suburban office space.

In the promotion of office deconcentration, the intent of the City and Metro Official Plans was to encourage the development of new office growth in suburban sub-centres and to develop a transportation system which promoted this form of office growth. This section will attempt to illustrate the extent to which office growth has been deflected to suburban office nodes with good access to rapid transit as opposed to more dispersed locations which are accessible primarily by private automobile.

In order to carry out this analysis, the Royal LePage data were broken out into 36 districts across the region and then grouped into the following more general categories:

(i) Central Area

(ii) Office Sub-Centres - (office nodes with access to rapid transit (subway or LRT))

(iii) Office Parks (office nodes accessible primarily by automobile)

(iv) Dispersed locations - (scattered office locations)

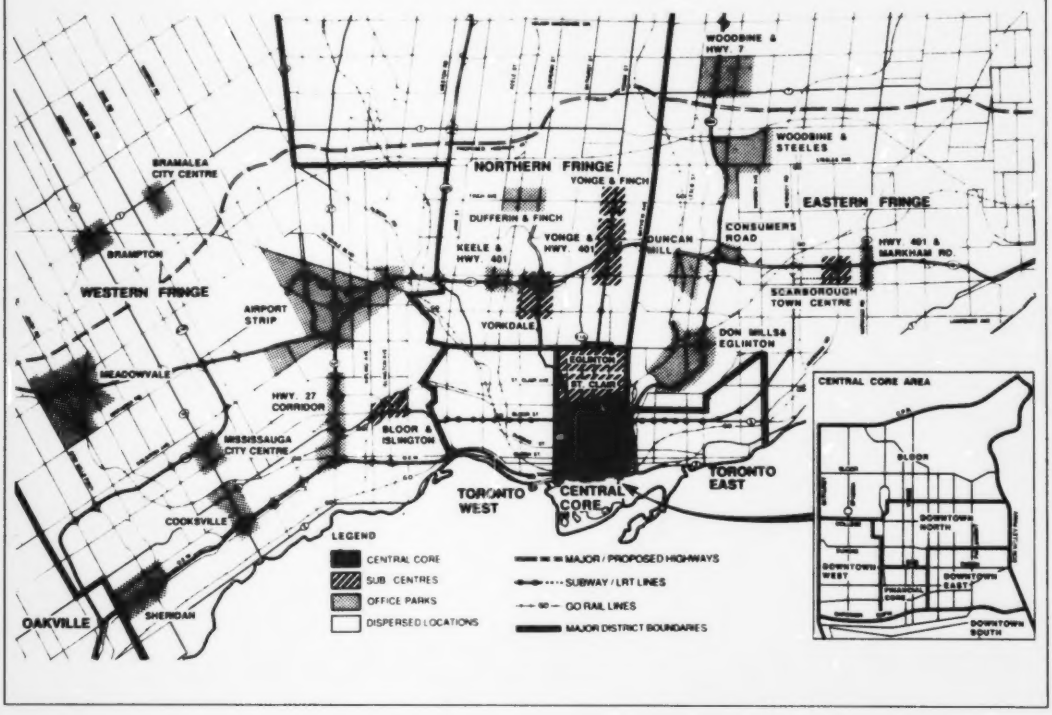
The location of each district and the type of office configuration each represents is illustrated on Figure 8.

5.1 Central Area

Despite its slower rate of growth in recent years, the Central Area remains the major location for office space in the region, accounting for 55 percent of all office space found in the region. Just over one quarter of the total supply of office space in the region is concentrated in the Financial District bounded by Queen, Simcoe and Church Streets and the Gardiner Expressway. Since 1976, roughly 1.7 million square metres (18.4 million square feet) of office space has been completed in the Central Area, accounting for 46 percent of the total office space built in the region over that period.

Since 1976, the rate of office growth within the Central Core (that portion of the Central Area where most office development is concentrated) has remained well within the Review Limits established by the 1976 Central Area Plan. For a complete discussion of office growth in relation to Official Plan Review Limits, please refer to Background Paper No. 4 - **A Review of Office Space in the Central Area.**

Figure 8
Toronto Office Market Areas



The demand for office space in the Central Area rebounded sharply in 1985 and measured 225 000 square metres (2.4 million square feet) compared with only 46 000 square metres (0.5 million square feet) one year earlier. In 1985, the Central Area captured 44 percent of all the space absorbed in the Toronto region (Table 4).

In spite of the strength of demand for space in the Central Area in 1985, vacancy rates in the Central Area at 9.9 percent were the highest of all office nodes in the region. A total of 464 000 square metres (five million square feet) of vacant space was available in the Central Area as of year end 1985.

With a considerable amount of new office space scheduled for completion in the Central Area over the next two years office analysts predict that vacancy rates will remain at currently high levels for some time to come in the Central Area. Generous tenant inducements such as leasehold allowances, free rent or reduced rental rates are currently being offered to attract tenants to available downtown office space as a result.

Table 4
Summary of Office Space Data for Selected Locations
December 1985
(Square Metres)

Location	# Bldgs.	Total Office Space		Vacant Office Space			Demand for Office Space	
		Dec. 1985	As % Region	Dec. 1985	As % Region	Vacancy Rate	1984-85	As % Region
Financial Core	121	2415088	28.40	246285	32.37	10.20	99999	19.66
Downtown East	19	118393	1.39	16683	2.19	14.09	23514	4.62
Downtown South	9	109425	1.29	23897	3.14	21.84	6350	1.25
Downtown West	23	163125	1.92	14381	1.89	8.82	16498	3.24
Downtown North	65	1079953	12.70	101609	13.36	9.41	33577	6.60
Bloor	71	786667	9.25	60895	8.00	7.74	44676	8.78
Central Area Total	**308**	**4672651**	**54.95**	**463750**	**60.96**	**9.92**	**224614**	**44.17**
St. Clair	26	272469	3.20	10780	1.42	3.96	1861	0.37
Eglinton	54	417960	4.92	30445	4.00	7.28	36702	7.22
Scarborough Town Centre	7	176315	2.07	14598	1.92	8.28	51863	10.20
Yonge-Hwy 401	15	213614	2.51	4873	0.64	2.28	12657	2.49
Yonge-Finch	5	21465	0.25	1514	0.20	7.05	-499	-0.10
Yorkdale	12	117252	1.38	1687	0.22	1.44	3782	0.74
Bloor & Islington	7	83160	0.98	1682	0.22	2.02	6858	1.35
Sub-Centre Total	**126**	**1302236**	**15.31**	**65579**	**8.62**	**5.04**	**113224**	**22.26**
Don-Mills/Eglinton	41	386292	4.54	39529	5.20	10.23	19493	3.83
Duncan Mill	20	157505	1.85	6577	0.86	4.18	2069	0.41
Consumers Road	27	273403	3.22	22789	3.00	8.34	10729	2.11
Woodbine/Steeles	23	258845	3.04	11232	1.48	4.34	25694	5.05
Woodbine/Hwy 7	1	2683	0.03	0	0.00	0.00	0	0.00
Markham/Hwy 401	4	32576	0.38	7541	0.99	23.15	2908	0.57
Dufferin-Finch	6	28339	0.33	4138	0.54	14.60	-2085	-0.41
Keele-Hwy 401	6	67208	0.79	498	0.07	0.74	-498	-0.10
Hwy 427 Corridor	25	166348	1.96	34088	4.48	20.49	8971	1.76
Mississauga City Centre	10	136236	1.60	7798	1.03	5.72	14530	2.86
Airport Strip	27	163821	1.93	17558	2.31	10.72	18046	3.55
Cooksville	9	46349	0.55	6437	0.85	13.89	2912	0.57
Meadowvale	24	148639	1.75	16563	2.18	11.14	9450	1.86
Sheridan	3	31665	0.37	2508	0.33	7.92	-2418	-0.48
Brampton	5	19152	0.23	0	0.00	0.00	139	0.03
Bramalea City Centre	2	14530	0.17	0	0.00	0.00	0	0.00
Office Park Total	**233**	**1933590**	**22.74**	**177256**	**23.30**	**9.17**	**109941**	**21.62**
Toronto East	3	10331	0.12	464	0.06	4.49	531	0.10
Eastern Fringe	30	179420	2.11	9414	1.24	5.25	27288	5.37
Northern Fringe	37	169210	1.99	16980	2.23	10.03	12907	2.54
Oakville	9	43338	0.51	9043	1.19	20.87	13128	2.58
Toronto West	13	49912	0.59	2171	0.29	4.35	-1886	-0.37
Western Fringe	32	142634	1.68	16115	2.12	11.30	8831	1.74
Dispersed Total	**124**	**594844**	**7.00**	**54187**	**7.12**	**9.11**	**60798**	**11.95**
Regional Total	**791**	**8503321**	**100.00**	**760772**	**100.00**	**8.95**	**508577**	**100.00**

Source of Data: Royal LePage Ltd.

Table 5
Distribution of New Office Construction
in the Metropolitan Region 1966 - 1985
(Square Metres)

Location	1966-70		1971-75		1976-80		1981-85	
Financial Core	340863	33.8	410901	22.5	400776	24.4	515090	23.7
Downtown East	0	0.0	43663	2.4	4552	0.3	39999	1.8
Downtown South	0	0.0	34670	1.9	2671	0.2	34187	1.6
Downtown West	2787	0.3	15979	0.9	11157	0.7	84964	3.9
Downtown North	159029	15.8	233569	12.8	195430	11.9	286650	13.2
Bloor	101423	10.1	301167	16.5	57337	3.5	98836	4.6
Central Area Total	**604103**	**60.0**	**1039949**	**56.9**	**671924**	**40.9**	**1059727**	**48.8**
St. Clair	51693	5.1	30063	1.6	46893	2.9	35439	1.6
Eglinton	25630	2.5	134154	7.3	25405	1.5	65742	3.0
Scarborough Town Centre	0	0.0	31180	1.7	21832	1.3	116244	5.4
Yonge-Hwy 401	9253	0.9	31355	1.7	91902	5.6	68405	3.2
Yonge-Finch	0	0.0	6689	0.4	2973	0.2	5487	0.3
Yorkdale	9414	0.9	10498	0.6	13039	0.8	81514	3.8
Bloor & Islington	0	0.0	21226	1.2	17296	1.1	44638	2.1
Sub-Centre Total	**95990**	**9.5**	**265165**	**14.5**	**219339**	**13.4**	**417469**	**19.2**
Don-Mills/Eglinton	145504	14.4	64514	3.5	66334	4.0	45584	2.1
Duncan Mill	35998	3.6	33009	1.8	55127	3.4	33371	1.5
Consumers Road	41712	4.1	107667	5.9	101143	6.2	22630	1.0
Woodbine/Steeles	0	0.0	1858	0.1	71053	4.3	183426	8.4
Woodbine/Hwy 7	0	0.0	0	0.0	0	0.0	2683	0.1
Markham/Hwy 401	0	0.0	4831	0.3	8298	0.5	19447	0.9
Dufferin-Finch	7581	0.8	14813	0.8	5946	0.4	0	0.0
Keele-Hwy 401	0	0.0	21155	1.2	0	0.0	0	0.0
Hwy 427 Corridor	23933	2.4	36185	2.0	51514	3.1	50219	2.3
Mississauga City Centre	5435	0.5	18773	1.0	72096	4.4	39933	1.8
Airport Strip	11297	1.1	16350	0.9	47980	2.9	80634	3.7
Cooksville	3344	0.3	0	0.0	35180	2.1	2248	0.1
Meadowvale	0	0.0	38711	2.1	62933	3.8	46994	2.2
Sheridan	0	0.0	12410	0.7	5110	0.3	14146	0.7
Brampton	8317	0.8	2676	0.1	8159	0.5	0	0.0
Bramalea City Centre	0	0.0	0	0.0	14437	0.9	0	0.0
Office Park Total	**283122**	**28.1**	**372951**	**20.4**	**605310**	**36.9**	**541314**	**24.9**
Toronto East	0	0.0	0	0.0	0	0.0	2787	0.1
Eastern Fringe	0	0.0	64953	3.6	28378	1.7	47472	2.2
Northern Fringe	12077	1.2	56334	3.1	39802	2.4	34864	1.6
Oakville	0	0.0	2323	0.1	8826	0.5	28474	1.3
Toronto West	8918	0.9	2898	0.2	9939	0.6	7432	0.3
Western Fringe	2781	0.3	23773	1.3	57765	3.5	31835	1.5
Dispersed Total	**23776**	**2.4**	**150281**	**8.2**	**144710**	**8.8**	**152864**	**7.0**
Regional Total	**1006991**	**100.0**	**1828347**	**9.3**	**1641283**	**100.0**	**2171373**	**100.0**

Source of Data: Royal LePage Ltd.

5.2 Office Parks

In suburban areas, the largest share of office space is found in office parks. A total of 16 office parks were identified, containing 1.9 million square metres (21 million square feet) of office space (23 percent of the regional total). Since 1976, 1.15 million square metres (12.3 million square feet) of space has been added to office parks representing 30 percent of the total office space constructed in the region over that time period.

Table 5 shows that the development of office space in office parks flourished between 1976 and 1980 but has since subsided somewhat. Between 1976 and 1980, office space constructed in parks totalled 605 000 square metres (6.5 million square feet) (37 percent of the regional total). Since 1980, the share of space built in office parks has fallen to 541 000 square metres (5.8 million square feet) (25 percent of the regional total).

At year end 1985, the overall vacancy rate in office parks stood at 9.2 percent. This amounts to 177 000 square metres (1.9 million square feet) of vacant space and 23 percent of the total supply of vacant space in the region. During 1985, 110 000 square metres (1.2 million square feet) of office space was absorbed in office parks (21.6 percent of the regional total) (Table 4).

The data indicate that while office parks represent the largest share of office space found outside the Central Area, their dominance has diminished since 1980.

The largest portion of office park space is situated along the Don Valley corridor in Eglinton/Don Mills, Duncan Mill, Consumers Road, and Woodbine/Steeles. Together these four parks accommodate just under 1.1 million square metres (11.6 million square feet) of office space in 111 buildings. This represents 56 percent of all the office space situated in office parks and 13 percent of the total space built in the region. The Woodbine/Steeles office park accounted for 16 percent of all new office space built in the region in 1985. The north Don Valley corridor has emerged as a major axis for new suburban office construction in the 1980's.

A sizable amount of office space can also be found in the Hwy 427 and Airport Strip corridors. These two parks accommodate (325 000 square metres (3.5 million square feet) of office space in 52 buildings, representing four percent of the regional total. In 1985, 13 percent of the total space built in the region was situated in these two locations.

Proximity to major expressway corridors permitting ready access by private automobile appears to be a major factor contributing to the popularity of office park locations in suburban areas.

5.3 Sub-Centres

Office sub-centres were defined as office nodes located in close proximity to rapid transit (subway, LRT lines). Seven office sub-centres were identified. All, with the exception of the Scarborough Town Centre, were located on subway lines.

In 1985, a total of 1.3 million square metres (14 million square feet) of office space was located in office sub-centres, representing 15 percent of all office space found in the region. Since 1976, 613,000 square metres (6.6 million square feet of new office space was built in sub-centres with the

largest share of this growth occurring after 1980. As Table 4 shows, the regional share of office growth in sub-centres increased dramatically from only 12 percent between 1976 and 1980 to 19% between 1981 and 1985.

In December 1985, office sub-centre locations had the lowest (5.0 percent) vacancy rates of each type of node examined.

A total of 113 000 square metres (1.2 million square feet) of space was absorbed in sub-centres in 1985 (22 percent of the regional total).

The data indicate that while slow in developing, suburban office sub-centre locations have rapidly gained momentum in the 1980s.

The two older sub-centres located at Yonge/St. Clair and Yonge/Eglinton contain 690 000 square metres (7.4 million square feet) of office space in 75 buildings. The north Yonge corridor stretching from York Mills to Finch Avenue contains 235 000 square metres (2.5 million square feet) of space in 20 buildings. The north Yonge location is expected to grow at a fairly rapid rate with several large office projects scheduled for completion over the next five years. A new subway station is being constructed between the existing Sheppard and Finch stations to service the sub-centre.

Also emerging is the Scarborough Town Centre, located at the terminus of the LRT line connected to the Bloor-Danforth subway line. This location presently accomodates 176 000 square metres (1.9 million square feet) of office space in seven buildings.

While showing promise in terms of attracting new suburban office growth, the share of office development occuring in the office sub-centres has lagged behind that of office parks over the past ten years. The relative share of space in both office parks and office sub-centres is however increasing.

5.4 Dispersed Locations

In 1985, dispersed locations accounted for a total of 0.6 million square metres (6.3 million square feet) of office space in 122 buildings. Office space in dispersed locations represents only seven percent of the total space found in the region and only five percent of the space built since 1976.

Vacancy rates in dispersed office locations stood at 9.1 percent in December 1985 with 54 000 square metres (0.38 million square feet) of office space absorbed during 1985.

5.5 Comparison of Vacancy Rates and Rental Rates by Zone

The following analysis compares variations in vacancy rates and rental rates on the basis of the age and location of a large sample of office buildings included in the Royal LePage survey of office space. The analysis shows that in Central Area and sub-centre office space, asking rents for newer space tend to be substantially higher than rents for older space. In office parks and dispersed locations, variations in building age tend to have little influence on asking rents.

The analysis also indicates that rents charged in the Central Area ($302 per square metre) are the highest of all zones examined, followed by sub-centres ($232), office parks ($165) and dispersed locations ($138). Table 6 summarizes the analysis in greater detail.

Vacancy rates, as was noted earlier, were highest in the Central Area (9.5 percent) and lowest in office sub-centres (4.5 percent) with vacancy rates in office parks and sub-centres averaging around 8.9 percent. It is interesting to note that newer office buildings in the Central Area which were completed between 1975 and 1984 had higher (11.7 percent) vacancy rates than older buildings completed prior to 1974 (around 6.9 percent) In office parks and sub-centres vacancy rates in newer buildings were slightly lower than those in buildings built prior to 1974. These trends reflect the strong demand for new suburban space over the past ten years.

Table 6
Comparison of Rental and Vacancy Rates by Zone and Age of Building

	Period of Construction									
	Pre 1966		1966-1974		1975-1984		1985		All Buildings	
Location	Vacancy Rate %	Average Rent $/sq.m	Vacancy Rate %	Average Rent $/sq.m	Vacancy Rate %	Average Rent $/sq.m	Vacancy Rate %	Average Rent $/sq.m	Vacancy Rate %	Average Rent $/sq.m
Central Area	6.96	224	6.83	279	11.69	322	78.83	400	9.51	302
Sub-centres	3.63	200	3.56	203	3.18	225	23.84	278	4.48	232
Office Parks	9.17	162	8.14	143	6.10	171	46.69	180	8.82	165
Dispersed	3.04	127	3.89	155	7.32	159	50.46	115	8.92	138
Region	**6.32**	**212**	**6.64**	**233**	**8.20**	**271**	**34.58**	**267**	**8.55**	**252**

Source: *Royal LePage Limited*

Note: *Rental figures are based on asking rents for space available to let and do not include rents charged for space currently leased. Average rents are weighted by amount of vacant space available. Vacancy rates vary slightly from rates quoted elsewhere in this report because data are based on only those buildings in the Royal LePage survey for which completion dates were available.*

6 Some Conclusions Regarding Deconcentration

The preceding analysis has demonstrated that since 1976, the Central Area's share of total office space has fallen from 66 percent to 55 percent while the suburban share of total space has risen from 32 percent to 45 percent.

While the demand for space in the Central Area approached near record levels in 1985, the longer run average indicates that general level of demand has fallen well below the periods of intense office expansion recorded in the Central Area between 1971 and 1975. The recession, decentralization of many firms and office functions to suburban locations and a sharp increase in Central Area office rental rates in 1980 were major factors in the slowdown in demand experienced in the Central Area after 1980.

In terms of actual growth since 1976, 1.75 million square metres (18.6 million square feet) of office space (45 percent of the regional total) has been built in the Central Area, while 2.1 million square metres (22.4 million square feet) of office space (55 percent) has been added to suburban locations. The dispersal of an increasing share of office growth to suburban locations is therefore clearly evident.

Since 1976, the largest share (69 percent) of suburban growth, has been constructed in office parks and dispersed locations which are not directly served by major transit lines and therefore tend to be heavily dependent upon automobiles for access. However, the share of office space constructed in office sub-centres has increased significantly since 1980. Over the last five years sub-centres have captured 38 percent of the total amount of space built in suburban locations as compared with only 23 percent between 1976 and 1980.

Low vacancy rates, strong demand, and an abundant supply of new offices nearing completion in sub-centre locations, suggest that sub-centres may continue to attract an increasing share of the suburban office market over time. In the final analysis, however, the extent to which suburban sub-centres can overcome the attractiveness of office parks with ample free parking and expressway access for employees may be dependent on the provision of rapid transit improvements to service the sub-centre locations.

Appendix

Office Space Supply, Absorption and Vacancy Rate Summary Annually, 1966 - 1985

	Annual Supply of Office Space (000's of sq. m)			Annual Absorption (000's of sq. m)[1]			Year End Vacancy Rate (vacant space as % of total space)		
	Central Area[2]	Suburbs	Total Region	Central Area[2]	Suburbs	Total Region	Central Area[2]	Suburbs	Total Region
1966	277	-14	263	290	1	291	2.5	1.9	2.3
1967	177	121	298	85	115	200	7.3	2.4	6.0
1968	50	53	103	116	44	160	3.6	3.5	3.6
1969	112	109	221	152	112	264	1.3	2.7	1.7
1970	69	89	158	40	76	116	2.7	3.9	3.0
1971	230	142	372	158	61	219	5.6	11.2	7.3
1972	267	124	391	156	92	248	9.3	12.9	10.4
1973	64	117	181	150	172	322	5.8	7.3	6.3
1974	251	67	318	167	95	262	8.2	4.8	7.1
1975	261	209	470	217	109	326	9.0	10.6	9.5
1976	305	60	365	229	101	330	10.4	7.7	9.5
1977	26	122	148	55	108	162	9.5	8.0	9.0
1978	-6	187	181	94	151	245	6.6	9.1	7.4
1979[3]	159	485	644	232	424	656	4.2	9.8	6.5
1980	44	235	279	132	259	391	1.8	8.0	4.4
1981	203	371	574	190	399	589	2.1	6.1	3.9
1982	160	214	374	28	129	157	5.3	8.4	6.7
1983	342	247	589	125	169	295	9.8	10.0	9.9
1984	160	116	276	46	108	154	12.0	9.9	11.1
1985	157	245	402	224	284	508	9.9	7.7	9.0

1 *Absorption refers to growth in occupied floor space.*
2 *Based on Royal LePage Downtown and Bloor District - these areas closely approximate the Central Area.*
3 *Mississauga District included in 1979.*

Source: Royal LePage Limited (note that only office buildings containing 1 858 square metres or more of office space are included in this survey and that all values are reported in terms of net rentable floor area).